

Montana Wheat and Barley Committee

Summer Board of Directors' Meeting
Eastern Research Station/ARS Meeting Room, Sidney
July 7-8, 2005

Chairman Don Fast called the meeting to order at 8:00 a. m. on Thursday, July 7, 2005. The following were present for either a portion of or for the entire meeting:

DIRECTORS:

Don Fast
Janice Mattson
Brian Kaae
Dan Kidd

Dan DeBuff
Karen Schott
Leonard Schock

EX-OFFICIOS:

Nancy K. Peterson, Director; Montana Department of Agriculture (MDA)
Marvin Blodgett, Grain Merchandiser; General Mills Operations, Inc., Great Falls

STAFF:

Cheryl Tuck, Information Specialist
Kolleen Spurgin, Administrative Assistant

GUESTS:

Joel Clairmont, Interim MDA Deputy Director and Administrator; Ag Development Division
Terry Whiteside, Freight Traffic Consultant; Whiteside and Associates
Richard Owen, Executive Vice President; Montana Grain Growers Association (MGGA)
Peggy Stringer, Head Statistician; Montana Agricultural Statistics Service (MASS)

Chairman Don Fast reviewed the tentative agenda, mentioning lunch and dinner plans, as well as the Sidney and the Williston Research Station tours. Montana Department of Agriculture (MDA) Director Peterson and Interim MDA Deputy Director Clairmont had prior commitments and would be unable to attend the Williston tour. The Montana Wheat and Barley Committee (MW & BC) directors and staff would all be able to attend. Fast commented about the Williston pulse crop program and stated the MW&BC may want to jumpstart a similar program, as alternative crops are needed in Montana. The tentative agenda was adopted by consensus.

Chairman Fast called for public comments. There were no public comments at that time.

Cheryl Tuck reviewed the minutes from the April 7-8, 2005 Annual Budget Meeting, including corrections submitted by Dan Kidd, Janice Mattson, and Dr. Jeff Jacobsen, Dean, MSU College of Agriculture.

1) M/S/C Karen Schott/Dan DeBuff – That the April 7-8, 2005 Annual Budget meeting minutes be approved, as presented, with suggested changes. The vote was unanimous.

Fast called for the formal setting of the wheat and barley assessment levels. Tuck reviewed this procedure, stating it was a housekeeping detail, and the MW&BC must pass a motion even though the current level will not change at this time.

2) M/S/C Dan DeBuff/Leonard Schock – That the MW&BC continue the current assessment level with wheat at 12.5 mills per bushel and barley at 20 mills per hundredweight, set July 1, 2003. The vote was unanimous.

Kolleen Spurgin presented the Financial Position Statement through May FY2005. Spurgin noted collections were slightly higher than projected and all financial obligations would be met, with only a few minor accruals. Questions regarding how current salaries and past employee vacation and sick leave payout would affect the MW&BC FY2005 budget were discussed and reviewed. The Committee was informed that unused funds from one area could be shifted to cover shortfalls in other areas and the overall FY 2005 expenses would still be a little under budget projections.

3) M/S/C Brian Kaae/Dan Kidd – That the Financial Statement through May FY2005 be approved, as presented.

Discussion arose regarding the State Grain Lab (SGL) and whether the \$50,000 grant and the indirect charges (Centralized Services) were the MW&BC's obligation, and what stipulations applied. Chairman Fast inquired about the current status of the SGL. Director Peterson and Interim Deputy Director Clairmont gave an update of the SGL, indicating the need for a new boiler with an approximate replacement cost of \$7,100, as the current boiler failed the annual state inspection requirements. Maintenance on eleven broken windows is estimated at \$9,000 for interior and exterior work, which includes elimination of seven windows and four replacement windows. The SGL staff will help with painting and outdated equipment removal to help defray costs.

Lee Boyer is taking an active role in the SGL's current operations and reviewing long-term strategies, until a new bureau chief is hired. It was noted that there was "wiggle room" within the spending authority mandates set by the 2005 Montana legislature, allowing the SGL to process applications for a malting barley certification stamp, a possible source of future revenue for the SGL. Also, new protein standards will be closely monitored as they may affect current price, as well as possible equipment adjustment changes.

Director Peterson expressed several areas of concern with the SGL. The number one priority will be finding a bureau chief with progressive leadership skills to promote and market the grain lab. She feels the new bureau chief doesn't have to be a grain grader, but it would be helpful to have extra hands for times when the lab is swamped. Also, Director Peterson submitted the SGL for a performance audit with an independent division, but it will be on the bottom of the list if audited at all because the reason for the audit is not based on missing funds. There are certain issues relating to Homeland Security that will cost approximately \$20,000 to update the SGL computer system. However, there are federal grant monies being requested to help offset these fees.

Chairman Fast opened discussion on why the SGL was not being fully utilized and stated the question needed to be put directly to the producers through the MDA and farm organizations to find out what can be done to make the SGL a more viable resource. DeBuff, past member of the SGL Task Force, stated the shippers were in control of who checks trains, noting it is not advisable for SGL employees, especially in the middle of the night, after having to drive long distances to get to the location, to climb on railcars. SGL employees must also adhere to federal guidelines. Private companies can charge less because they are not mandated by the same guidelines governing the

SGL. Marv Blodgett indicated the consistency is very close between the SGL and NCI, mainly due to the hard work done by Sharon Campbell, while she was the SGL Bureau Chief, to improve credibility at the SGL.

Richard Owen presented the MGGA and The National Association of Wheat Growers (NAWG) updates as Keith Schott was unable to attend the meeting. Owen outlined current MGGA priorities, including resolution, with various agencies, on implementation of rules, crop insurance coverage, long-term strategic planning and transportation issues. Owen indicated the upcoming Thailand Trade Team negotiations will include an agriculture community reception and an Industry Tour. The MGGA listening sessions have been scheduled to resume in October, with twelve to fourteen sessions to be held at various locations around the state. Membership of MGGA was discussed, as well as dates for MGGA/Montana Stockgrowers Association (MSGA) joint convention scheduled in Billings on December 7-9, 2005. Owen mentioned speakers already lined up and indicated the MW&BC would have an hour to utilize with a presentation or other topics of interest. The Committee thought Russell Nemetz, of the Northern Ag Network, could give a presentation on the U.S. Wheat Association (USWA) Media Tour recently concluded, and possibly the new president of the Wheat Foods Council (WCF), Marcia Schneideman, would be available to give a presentation. Discussion took place regarding the payment of travel fees for Marcia Schneideman to attend the MGGA/MSGA convention. Chairman Fast said it is essential to have some kind of presentation on transportation, in light of ongoing price increases.

Owen gave the NAWG report, stating MGGA's input on the consolidation of the three national organizations (NAWG/USWA/Wheat Export Trade Education Committee (WETEC)) was done and now it is up to USWA and WETEC to counter offer. The vote on the consolidation is scheduled for the end of September, at the upcoming USWA board meeting. Owen stated certain problems needed to be addressed and a program upgrade would be necessary. Other problems needing attention include railway and transportation issues, of vital consequence to all agriculture organizations. The high cost of crop insurance coverage was discussed, along with alternative crops and pulse crops.

Director Peterson presented the MDA report, indicating it has been extremely busy getting contracts out, monitoring BSE and livestock feed testing, dealing with anhydrous ammonia locks (the legislature did not allocate enough money to accommodate all tanks in the state) and setting up an inspection schedule after the locks have been installed. Director Peterson reported the Bureau Chief position for the MW&BC would be opened again on July 11, 2005 and will close approximately July 25, 2005 but would be left open this time until filled. Director Peterson said Kathy Seacat at the MDA Central Management Division will contact Jim Christianson past MW&BC Executive Director, concerning a temporary work contract for trade team activities.

Director Peterson also mentioned wheat and barley varieties, and said the International Malting Company (IMC) is doing research on barley varieties. She wondered if the MW&BC was funding similar research. Kidd stated Tom Blake, barley geneticist from Montana State University (MSU), has been involved with ongoing research on three barley varieties, which are all moving forward. Concerns regarding royalties not being collected in Canada were discussed, with the opinion Montana must get actively involved, asking questions to remedy the situation. Owen commented collection of royalties is a regulatory problem. Chairman Fast emphasized the need to focus research on malting barley, particularly the Harrington and Metcalfe varieties.

Terry Whiteside presented the Transportation Update. Whiteside reported that all industries have been affected by rail issues and increased freight rates. Railroads are raising prices and providing less service. Railcars do not move until enough tonnage is achieved, which is why transportation of products is consistently behind schedule. In fact, in most cases, the railroad will not even give timed schedules. It is interesting to note this, as the railroads recently received a national award for running on time. BNSF would like to re-issue tariffs, effectively eliminating 52-car shipments and forcing use of 110-car shipments. There has been talk of going to 150-car shipments, but the current loops would have to be re-done, as they cannot presently accommodate 150-car shipments. The BNSF built the branch line in Moccasin, but typically railroads really don't want to deal with short lines, because they are getting too big. Branch lines (or short lines) are shifting to the private sector, mainly for this reason. Director Peterson commented that if Montana funds and maintains these branch lines, it will make the railroads unable to abandon them and it is essential for us to protect certain lines before it's too late. Chairman Fast asked Whiteside about his survey research on fuel surcharges, and Whiteside said he wasn't able to find out any pattern. There hasn't been any evidence of the \$2.5 million dollar savings that current rate reductions were supposed to generate, according to the BNSF.

Discussion regarding use of the Canadian Pacific (CP) Railroad came up, and Whiteside stated Montana could use the CP to move grain if the shipments were sealed. Canada has no problem with the U.S. using their rail system, but has requested reciprocity into the U.S.

Leonard Schock, Dan DeBuff and Janice Mattson gave the U.S. Wheat Associates (USWA) and (WETEC) updates. Schock reported recent changes in wording of the merger proposal between USWA, NAWG and WETEC. He voiced concerns about the MW&BC being left out of further negotiations because of the letter sent by Governor Schweitzer discouraging Montana's vote on the consolidation. This is an opportunity to amend and modify the language to address the concerns brought up by the states that voted against the merger. Schock noted weighted votes are tied to state production levels. Kidd commented it was essential to retain weighted votes by states and that trade policy work cannot afford to be stalled any longer. WETEC must make a decision and, Mattson stated, WETEC should dissolve if any organization voted down the merger. WETEC is operating on about half of its normal budget because many states have not committed funds until something definite has been decided. USWA currently has a \$1.5 million reserve and requires at least \$1.2 million in reserve to use as a buffer for the 32 bank accounts overseas. DeBuff stated he cannot vote for the new proposal as it is currently written. Debuff asked if the money will be controlled from check-off dollars and/or membership dollars.

Current "Must haves" before MW & BC will consider a merger between USWA, NAWG and WETEC were discussed. Kidd emphasized there should be equal representation between USWA and NAWG and implementation of a Joint Trade Committee to do the work that WETEC currently provides, so that concerns over MW&BC not being able to fund any lobbying could be addressed. Mattson stated that through education and a commitment to working together, perhaps the dissension resulting from different views on the consolidation merger could be resolved. Director Peterson indicated it might be a good idea to let WETEC dissolve and use the allocated money to hire staff for the purpose of education through USWA and let NAWG hire staff for lobbying to congressmen. It is imperative that MW&BC not fund any lobbying activities. Lines of communication must be open for this kind of partnership to succeed.

Karen Schott presented the Wheat Foods Council (WFC) report just held in Battle Creek, Michigan, stating how well organized it was. The new president, Marcia Scheideman, is very capable and has made changes in several areas to streamline operations. The budget committee has decided against using weighted votes. Any organization can be a voting member, including industry organizations for \$11,500, the same as every other member. Ellen Huber has been named the new chair for the WFC. The total budget of the WFC is \$700,000, with the program budget at \$300,000 and a reserve amount of \$500,000. A new public relations firm, Burson-Marsteller, with plenty of energy, has been found for the WFC. They plan to target women, doctors, and children or any group that may influence household purchases.

Brian Kaae presented the Wheat Marketing Center (WMC) and NCI reports and a short briefing on the U.S. Grains Council (USGC) Grain Export Mission (GEM). Kaae stated there wasn't any news to report for the WMC and NCI as he missed the last meetings due to the recent GEM Mission trip from which he just returned. Kaae reported he was no longer the chairman for NCI. Kaae mentioned he would give a presentation on the GEM trip at the October 2005 board meeting.

Dan Kidd reported on the upcoming USGC Summer Board Meeting and on the Advisory Team meeting in Geneva, Switzerland. Kidd stated the Malt Barley Symposium in Portland would be the focus of the upcoming July, 2005 meeting for USGC. The feedback and interest in this event has been very good. The International Malting Company (IMC), Anheuser Busch and state commissions are all going to be involved. There are quite a few people excited to come to Great Falls to tour the IMC's new malting plant. The USGC plans to work through various channels to help with getting necessary visa's for foreign visitors to the U.S.

Kidd reviewed the Trade Policy A-team visit to Geneva June 7-9 2005, stating how the key question of market access should be handled. There have been several delays due to technical problems, staff turnover and uncertainty surrounding the talks at the present time. The window of opportunity is rapidly closing, but with intense negotiations this fall the delegates feel an agreement can still be reached. The deadline is critical because the U.S. will run out of negotiating authority in June 2007. Kidd voiced concern if the U.S. doesn't vote for CAFTA it will send a negative message and could affect WTO negotiations.

Tuck distributed handouts on the Information Specialist Activities and Activities Diary, along with the Code-A-Phone update and "Information Requests Processed" report. Tuck also informed the Committee about budget items that still needed attention.

Kidd requested clarification on indirect charges incurred by the MW&BC and the SGL. Schott added the Committee would like to see a time line and a strategic plan for the SGL and possibly break out the indirect charges. Kaae commented the original purpose of the \$50,000 grant was as a buyout protection mechanism only, in case the SGL had to suddenly shut its doors. Kidd offered a suggestion to raise the grant amount to \$110,000 to include the SGL's indirect charges.

4) M/S/C Leonard Schock/Karen Schott – That advance notice will be given to the MW&BC when the \$50,000 grant is transferred to the SGL. The vote taken was four in favor and two opposed.

5) M/S/C Dan Kidd/Karen Schott – That the MW&BC approve the \$50,000 grant to the SGL. That the indirect funding be approved, but it is not to be included in the actual grant. The vote taken was five in favor and one opposed.

Peggy Stringer briefed the Committee on Montana Agricultural Statistics Service (MASS) reports and activities, detailing procedures to be followed for determining objective yield surveys. She distributed handouts including the Montana Agricultural Statistics book for the U.S. (2005) for the office. Stringer expressed concerns that MASS would not be able to achieve the level of historical data if she wasn't able to receive more funding. The Committee agreed to fund \$12,500 for Wheat and Barley Varieties; \$3,000 for Barley Sold for Malt; \$2,000 for the Ag Statistics Bulletin; \$1,500 for Wheat Utilization and \$15,500 for the Grain Movement Report, for a total of \$34,500.

6) M/S/C Dan DeBuff/Dan Kidd – That the above figures be accepted for the grant with the Montana Agricultural Statistics Service. The vote was unanimous.

On other previous budget matters needing review, Mattson asked the Board to consider an additional special projects contract with the National Barley Foods Council (NBFC) for \$5,000, to be granted for use in developing promotion for human food uses of barley, contingent on the NBFC receiving a recently requested federal grant.

7) M/S/C Janice Mattson/Leonard Schock – That the Committee fund an additional \$5,000 to the NBFC to help promote barley with a “healthy food” endorsement, but it will be contingent upon NBFC receiving the federal grant that had been requested. The vote was unanimous.

8) M/S/C Karen Schott/Janice Mattson – That the MW&BC budget cap be reset, up to \$1,958,414, to reflect the addition of \$12,062 for MASS, NBFC, and adjustments to National Barley Growers Association (NBGA), reflecting lowered final figures. There was also a minor transposition in the Operations portion of the budget. The vote was unanimous.

Mattson reviewed NBFC issues, commenting that the NBFC may be interested in joining forces with the group representing whole grains, and utilizing a “whole grain” stamp on barley products, providing criteria can be met for qualification to use this statement. She added that the NBFC has had increased hits on its website. The application for the USDA Federal Drug Administration (FDA) ruling, which would allow foods including barley the right to use a “healthy food” endorsement, has required an additional six-month extension to complete the process. She explained that a “real go-getter”, Pam Moffet, from Idaho, is working on the federal grant application. The health benefits of barley would be emphasized, such as the soluble fiber contained in barley, which stays in the human system longer and gives a satiated feeling. Barley, promoted as a whole grain, may “get things moving” because of the push behind whole grain foods now. Admittedly, barley is a difficult grain to work with as far as extracting certain attributes and using them as additives. Mattson, as an individual, and not as a member of the MW&BC, plans to write letters to her congressmen regarding this matter.

Mattson also mentioned the meeting she had in Portland with Japanese buyers, who were upset over finding green peas in their barley. In November of 2004, peas had been found in barley and it was attributed to a wrong gate being opened. Since then, however, five other incidents of “contamination” have been found. Basically, the Japanese realize the peas actually would add value to a feed ration, but their feed manufacturers do not like the appearance and therefore it is a problem for our buyers.

Even though the amount of "contamination" was within specification tolerances, the Japanese called the meeting to see if the situation could be remedied. Suggestions were made about how to determine the point where contamination occurred, but the end result was the Japanese would be satisfied with possible explanations to offer to their feed manufacturers, followed by a statement as to how the U.S. plans to resolve the problem. A joint statement between the involved states will be drafted at the upcoming USGC meeting.

Tuck advised there will be another Simultaneous Buy Sell Mission to Japan, to be scheduled for either November 7-11, November 28-December 2, December 12-16 or, perhaps sometime in January. Discussion was held about who from the MW&BC would attend, with the actual decision to be tabled until it is determined if everyone on the Board has been overseas and who should be next in line for this trip. DeBuff indicated he would like to check with USWA first before he made any commitment, should he be the next in line.

It was also determined to table any plans to have a formal strategic planning session at the upcoming October 2005 meeting and wait, instead, until the next MW & BC Executive Vice President is on board.

Chairman Fast said he still would like clarification from Director Peterson and Deputy Director Clairmont, or other appropriate persons, regarding how funds are transferred from the MW&BC account for interagency transfer. Deputy Director Clairmont suggested that perhaps Seacat, with MDA/CMD should be included on the agenda for the next MW&BC meeting to address those issues.

The meeting was adjourned at 5:30 p.m.

An executive session of the meeting was held from 8:00 a.m. until 8:35 a.m. on Friday, July 8, during which time personnel matters were discussed.

Chairman Fast called the regular meeting to order at 8:35 a. m., indicating, under the present circumstances with no executive in place, Tuck should temporarily suspend writing a Friday Letter. It was noted her priorities will change, and board members should be able to find most of the "Friday Letter" information on-line. Director Peterson suggested that Tuck delegate tasks to others, as well.

Tuck indicated that she did not ask permission to attend the upcoming USWA meeting in Oklahoma, as several MW & BC directors were already planning on attending and there would be no Administrators' meeting at this event.

The Committee was also briefed on a conversation Tuck had with Maria Emmer-Aanes, the marketing representative from Great Harvest Bread franchise headquarters, regarding use of MW&BC printed materials for educational purposes and distribution from their stores, estimated to be 215 around the western United States. Tuck suggested perhaps Great Harvest could submit a proposal for the printing of "The Story of Wheat" publication. Kidd suggested not to wait for the next MW & BC budget meeting as this would present an excellent opportunity to spread the message about Montana's unique, high quality wheat. Chairman Fast directed the office to research cost involved for the publication. Director Peterson would like to see the MW&BC logo on the "Story of Wheat" book. DeBuff suggested the addition of a "Use Montana Wheat" type quality seal.

9) M/S/C Karen Schott/Dan Kidd – That the MW&BC office put together a letter marketing the “Story of Wheat” booklet which would offer up to \$1,000 worth of this publication to Great Harvest, Wheat Montana Bakery, Ag in Montana Schools, and Bell Gardens, a division of Taco Bell. The vote was unanimous.

After briefing the directors on the possibility of sponsoring an “Elevator Managers’ Workshop” through the WMC, Tuck was instructed to gather additional information on the program for the Board’s consideration.

The Committee held a brief discussion about joining the Wheat Quality Council (WQC). Tuck advised that collection points for wheat samples were in place and membership in this group would facilitate the gathering of these OVA samples. The Board came to a consensus that they wanted again to be involved in this process, and that the cost of membership would be needed. The MW&BC used to belong to the WQC but dropped membership in leaner financial times.

Marvin Blodgett gave his “View from the Trade” report. He mentioned recent reports he received on good quality wheat. Grain prices are down and Hurricane Dennis is having an adverse effect on the markets. Kansas is reporting very good quality (12-13% protein) with a projected production of 400 million bushels. Blodgett predicts that there will be harvest pressure in the markets. As far as a clear picture of the direction prices will go in the future, it is “pretty blurry”. If moisture is received, then we can expect a good crop, but projections are up for Chinese production and this would create a bullish market factor. Blodgett mentioned the rail freight rate changes predicted for August would amount to a 27 cents /bushel increase. Questions about the viability of the BNSF and where it is heading should be asked. There is tough competition for 52-car stations and Blodgett speculates there will be big changes yet to come.

Mattson questioned how long the General Mills lease will continue, and Blodgett indicated it is coming up soon. Kidd voiced concern that flour mills in Montana and, for that matter, in other parts of the country, may not be able to handle 110-car trains. Milling capacity was discussed and Blodgett offered that Great Falls is running at 68% capacity now.

On other matters, General Mills has been doing all the durum merchandising for Pasta Montana, with the need for two million bushels. As for Hard White (HW), General Mills can’t use a lot of HW spring wheat. It prefers NuWest and Golden Spike, which can be used for everything. General Mills uses less of NuHorizon and NuFrontier. There is more HW than what General Mills needs, perhaps 900,000 bushels in extra stocks. Cereal Foods Processors uses one half HW. Idaho 377S (HW spring), is a low (PPO) wheat and is used in blending. Blodgett reiterated the problem of getting enough HW to build up a critical mass for export. Columbia Grain, at Wolf Point, reports the crops being delayed because of recent rains received.

Blodgett mentioned that Homeland Security is still an issue. General Mills is on a mission to verify wheat shipments and it has rejected railcars that weren’t sealed. This kind of regulation will get tighter, he feels. Blodgett said he is concerned that sometime in the future, entire flourmill operations may end up being shut down due to security issues. Currently, railcars are tagged and locked at the top of the cars, and securing bottoms of cars is not generally viewed as important. Columbia Grain is sealing everything and seals must match lists.

Chairman Fast called for public comment and hearing none, discussion was held regarding the next Board meeting date, tentatively set for October 17 -18, 2005 in Great Falls. A later discussion centered around checking with Dr. Jacobsen to see if the meeting should be scheduled the week of October 24-28 instead, because of conflict with the earlier mentioned date. Tuck offered to see if a tour of the IMC plant could be arranged to coincide with the October meeting. Also on that upcoming meeting agenda will be election of officers and board assignments, and it will be the first meeting for new directors.

The next MGGA Board meeting will be held October 15, 2005 in Havre.

The MW&BC portion of the December 7-9 MGGA/MSGa in Billings was discussed and it was suggested that both Russell Nemetz, who will present his report on his media tour sponsored by the MW&BC, and Terry Whiteside, will share the program. The Board also agreed that a MW & BC half-day meeting should be held during this convention so that out-of-town visitors could attend the meeting.

10) M/SC Dan Debuff/Leonard Schock- That Tuck attend the Sep. 30 – Oct. 2 USWA meeting in Portland.

Mention was made for everyone to encourage attendance at upcoming field days at the various research stations.

Kaae indicated he would have a PowerPoint presentation of his GEM Mission at the next meeting, but gave a quick synopsis of this trip from which he just returned.

Kidd asked about several aspects of “lobbying”. Director Peterson stated we definitely need to follow up with organizations which the Committee feels may not have a clear distinction drawn on this issue. She said the reporting process could be an oral presentation or a written report. It might be wise to require a report every quarter during the fiscal year. Mattson said that she feels NAWG has “gray areas”, which it has addressed by revising it’s accounting to demonstrate where funds are distributed for the protection of the MW&BC, and for the record. DeBuff stressed that the MW&BC requires a written report for all organizations the MW&BC funds, not just regarding “gray areas” with “lobbying” issues, but for compliance. Each organization should be looked at on a case-by-case basis, as this is an important matter.

The meeting was adjourned at 10:15 a.m., so that those wanting to tour the Sidney Research Station and ARS Laboratory could meet at 10:30 and then travel on to tour the Williston, North Dakota Research Station after lunch.

Don Fast, Chairman

Date